Mr. Aldrich and His Currency Scheme

Henry W. Yates, president of the Nebraska National bank, Omaha, has written the following criticism of Mr. Aldrich's amendments to his currency scheme:

As requested, I am pleased to state through you to the public the changes recently offered by Senator Aldrich to his original banking and currency plan.

A careful reading of these amendments will show that one especially important arrangement has been modified but in other respects so far as the public interests are concerned, the changes are not for the better.

In the writer's address before the Laymen's club, which was published in The Commoner of Oct. 27th, he called attention to the fact, that in addition to receiving at once a deposit of public funds to the full extent of the United States treasury balance, upon which no interest would be allowed the reserve bank would receive from the government 2 per cent interest per annum upon the $700,000,000 of United States bonds it would take over from the national banks, and which bonds would cost it absolutely nothing, being paid for by its simple I. O. U.s or promises to pay, subject only to the one-half per cent per annum tax now levied on national bank circulation.

This was a glaring situation, which the most ordinary thinker could easily understand and it has been deemed advisable to modify it. The 2 per cent bonds received from the national banks are to be taken up by the government and 3 per cent bonds issued in their place. The reserve bank will pay for fifty years which is to be the life of the new bonds, an annual franchise tax of 1½ per cent per annum. This is what the government now pays the national banks, being 2 per cent less one-half per cent tax. The new arrangement is not entirely a one sided concession. The 2 per cent bonds without the circulation privilege would not be worth anything near par. In the statement it is said they would "depreciate so as not to be worth more than seventy cents on the dollar." Under the original arrangement the reserve bank would have been obliged to carry these bonds for ten years or until redeemed by the government. The new suggestion will give the bank a bond which it may probably be able to sell at a premium. It is permitted to dispose of $50,000,000 annually and the government itself may purchase them at par for postal savings banks or otherwise.

Practically and in a few words the change means that for fifty years the reserve bank will pay a tax to the government of 1½ per cent per annum upon the circulation taken over from the national banks which is better than paying nothing at all.

The result of the arrangement, however, will be that thereafter every loan the government may find it necessary to place on the market for needed purposes or in redemption of these bonds taken over by the reserve bank must carry an interest rate of at least 3 per cent per annum, and the increased charge thereby made upon the national revenues, must be met by an increased tax levied upon the public.

The remaining changes that the writer has noted, will be stated in order:

1. The tax imposed upon excess circulation, the bank is permitted to issue over the initial $700,000,000 is materially lessened.

As originally suggested the first $100,000,000 would be taxed 3 per cent per annum, the second $100,000,000 at 4 per cent per annum; the third $100,000,000 at 5 per cent per annum and thereafter any sum at 6 per cent per auunm.

As now proposed, the first $200,000,000 over the $700,000,000 will carry no tax, the second $300,000,000 being the excess over $900,000,000 will be taxed 1½ per cent per annum except if said issue should be covered by an equal amount of gold or lawful money there will be no tax. This holding of lawful money may be obtained by the bank from the public, the United States treasury or from other deposits and would not necessarily entail any hardship upon the bank. Practically, therefore, it may be said that the reserve bank can issue untaxed notes to the extent of $500,000,000 over and above the total volume of national bank notes now in circulation.

2. The writer also called attention to the fact that no reserve whatever was required to be held by the bank against deposits.

This also glaring fact is to be corrected in a way.

All demand liabilities of the reserve bank, including deposits and circulation, must be covered by a reserve of 50 per cent of gold and lawful money. This reserve, however, may be trespassed upon by the payment of a cumulative tax of 1½ per cent for every 2½ per cent decreased reserve, but the further issue of bank notes is prohibited should the reserve be reduced below 30 per cent of the circulation. A further reserve concession is also made the bank.

Under the original plan it was required to hold 30 per cent reserve against the $700,000,000 circulation taken from the national banks. This has been reduced to 30 per cent upon $350,000,000 as it is stated "on the theory that $350,000,000 of the present bank note issues at least never will be presented for redemption." This is a surprising statement.

3. State banks and trust companies instead of being required to organize under the national law, may come in as they are but in doing so, they must conform in all respects to the requirements and limitations imposed upon national banks.

4. As first suggested the balances of national banks kept with the reserve bank could be counted as a part of their lawful money reserve. This reserve privilege is still further extended so that it will include notes of the reserve bank held.

The writer recalls the time when some of the men now conspicuous in their support of credit currency, threw up their hands in holy horror, when it was suggested at an American bankers' convention that national bank notes should be so counted.

5. The classification of paper eligible for discount with the reserve bank has been emphasized in its exclusion of certain kinds of loans.

As it is stated "in order to guard against the use of the association for stock speculation the definition of commercial paper has been carefully framed." It may discount such paper drawn for "agricultural, industrial and commercial purposes and not for carrying stocks or bonds or other investment securities."

This has not been the first declaration against stock exchange securities, and it would seem that they do protect too much. Dealing in speculative securities is generally reprobated by all banks. Some few banks among the thousands doing business have been exposed in the practice, but it has been done in defiance of the present law and the principles held to indicate sound banking. It would seem to be deemed important on the part of the drafters of this instrument, that the reserve bank promises to be good in this respect and even to rear backwards in what is promised.

The position taken will exclude the safest and best securities a bank can possess either as owners or as a basis for loans, such as first-class local municipal securities, city, county, school and state bonds, certain railroad and other first class bonds, regarded as good as government bonds and to cap the climax, government bonds themselves. The large list of securities dealt with on the stock exchange should be distinguished in the manner President Roosevelt divided trusts into "good" and "bad." No bank has ever failed or caused loss of any kind in any community by reason of holding good securities of this character.

6. A considerable part of the proposed changes is devoted to the personnel of the board of directors of the reserve bank to meet the objection as the announcement states "that the control might be centralized or rather localized and give some particular section dominance over the financial affairs of the whole country." "Under the revision it is contended the localization of control has been rendered impossible."

This writer can not understand the force of the objection stated if ever made. This idea of a sectional prejudice or fear he believes to be a myth.

Whatever apprehension or fear may and probably does exist is against a possible money combination:—not necessarily from any particular section but from wherever the capital may be found that can avail itself of the privileges extended. This combination by means of the enormous power given the bank to inflate the currency, may enable it to control the finances and business of the country.

So far as this writer's views are concerned, he believes that if such a bank must be created the interests of the country would be better served, if its management should be in the hands of alert and competent bankers, who would always be "on the spot" and familiar with every detail of the business, rather than with a board membership scattered all over the country, who if they attended board meetings at all would from the very nature of the case be obliged to accept the conclusions reached by the men in active control.

This writer has asserted his belief which remains unchanged that sufficient inducements to justify the tying up of one-fifth of their capital stock in the stock of the reserve bank are not offered to the great volume of banks throughout the country. That membership in the association will be limited to those banks which can supply the short time commercial paper demanded for rediscounts and who, by means of this membership, will form a community of interests which will own and control the bank practically as an adjunct of their respective institutions.

As the rate of discount fixed must be uniform all over the country there would be no room for sectional prejudice or preference. There would be money enough to go round for all of them.

HENRY W. YATES.

Omaha, Neb., Oct. 26.

WAITING FOR "A DEAD MAN"

Joplin (Mo.) Globe: A crowd estimated at from twelve to fifteen thousand gathered at a park in Kansas City one night recently to hear a man speak. The speech was scheduled to begin at 9 o'clock. Washouts, however, delayed the speaker's arrival. The clocks pointed to 10 o'clock and still the crowd waited. Time dragged slowly. It was almost midnight before the speaker appeared. But the crowd remained to greet him and remained to hear him speak.

It was a remarkable testimonial to the man, wasn't it? It was something so out of the ordinary in this sophisticated day when people resign themselves to speeches as things to be endured that it seemingly was a great news item, or, to be strictly technical, a great feature, worthy of conspicuous newspaper place and comment.

The newspapers of Kansas City didn't so interpret it. They didn't give it first-page position. In fact, their reports were merely routine. And a few lines of flippant comment was the extent of the editorial attention bestowed.

Yet it was a very signal triumph for the man. A similar manifestation of popular interest, or loyalty, or even curiosity towards a journalistic favorite in that city would have called for ardent headline, spirited story and trundering, intense interpretation.

Who was the man? Only one of our politically vanquished. One who has grown old in the public judgment, and satirically familiar to the paragraphers. A chronic office-seeker, say some. A party meddler and malcontent, say others. A haughty, arrogant, presumptuous dictator, aver these practical politicians under their breath when they whisper in conclave, though outwardly they profess to him undying fealty.

The man's name is Bryan.

SPINNING A WEB

June, 1908—Republican national convention adopted platform promising to amend the Sherman anti-trust law.

September 5, 1908—Governor Hughes of New York, in speech delivered at Youngstown, Ohio, interpreted the republican platform pledge to mean that "the rule of reason" must be adopted.

May, 1910—W. E. Hutton & Co., in their trade letter printed in the Cincinnati Enquirer May 1, complimented President Taft on appointing Governor Hughes to succeed Justice Brewer in the supreme court and referring to the sentiment in Wall street, said: "It was felt that with such an addition to the highest tribunal that decisions in such cases as the Standard Oil and American Tobacco would be in safe hands."

May, 1911—Justice Hughes and other members of the supreme court render, over protest of Justice John M. Harlan, the famous "rule of reason" decision which, in effect, destroyed the Sherman anti-trust law.

September, 1911—George W. Perkins, associated with J. Pierpont Morgan in trust control, delivered a speech in which he complained that republican congressmen had not tried to redeem the republican promise to amend the Sherman anti-trust law but that it had been redeemed by the supreme court in the recent trust decision wherein Governor Hughes' "rule of reason" was applied.

Pass this on to your republican neighbor. Ask him what he thinks of the supreme court being packed with a view of having it redeem a party's campaign pledge.